

MARYLAND AFFORDABLE HOUSING TRUST

AUDITED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

MARYLAND AFFORDABLE HOUSING TRUST

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Independent Auditors' Report

To the Board of Trustees
Maryland Affordable Housing Trust
Lanham, MD

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Maryland Affordable Housing Trust, a special fund of the Maryland Department of Housing and Community Development, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise Maryland Affordable Housing Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independent Auditors' Report (continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Maryland Affordable Housing Trust as of June 30, 2016 and 2015, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 21 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2016, on our consideration of Maryland Affordable Housing Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Maryland Affordable Housing Trust's internal control over financial reporting and compliance.

Weyrich, Chanin + Sorra, Chd.

September 13, 2016
Lutherville, MD

MARYLAND AFFORDABLE HOUSING TRUST

Management Discussion and Analysis June 30, 2016 and 2015

Our discussion and analysis of the Maryland Affordable Housing Trust's (MAHT's) financial performance provides an overview of MAHT's financial activities for the years ended June 30, 2016 and 2015. Please read it in conjunction with MAHT's basic financial statements, which begin on page 9.

The mission of MAHT is to enhance the availability of affordable housing throughout the State of Maryland by providing assistance for households earning less than 50% of median income, with a preference given to serving households earning less than 30% of median income.

Financial Highlights

- MAHT reported net position of \$1.4 million, \$1.49 million and \$1.77 million for the fiscal years 2016, 2015 and 2014, respectively.
- MAHT's total net position decreased by \$.09 million in fiscal year 2016 and decreased by \$.275 million in fiscal year 2015. The decreases were exclusively the result of program operation.
- MAHT's activities in fiscal year 2016 had total program revenues of \$ 1.195 million, funding from the Department of Housing and Community Development (DHCD) of \$.075 million and total general expenditures of \$1.360 million. Total expenditures increased from last year, and is a direct result of increased grant draws. Administrative expenses were nearly even with the prior fiscal year and were over the 5% threshold. Again this fiscal year, the Department of Housing and Community Development infused Program Support funds to cover the overage. Revenues received from title companies increased noticeably from last year, and prior period collections decreased by 24%. The earnings derived from funds on deposit with the State Treasurer continued to be retained by the Treasurer as outlined in the 2010 Budget Reconciliation and Financing Act.
- MAHT's activities in fiscal year 2015 had total program revenues of \$.861 million, funding from the Department of Housing and Community Development (DHCD) of \$.061 million and total general expenditures of \$1.197 million. Total expenditures decreased from last year, as a result of lower current year grant draws. Administrative expenses were partially covered by the infusion of Program Support funds from the DHCD. Revenues received from title companies slipped slightly from last year, and prior period collections decreased by 39%. The earnings derived from funds on deposit with the State Treasurer continued to be retained by the Treasurer as outlined in the 2010 Budget Reconciliation and Financing Act.
- MAHT's current and prior year revenues included collections recovered with the assistance of the Maryland Insurance Administration (MIA). The fiscal year 2016 amount was \$83,521, fiscal year 2015 was \$109,684, and fiscal year 2014 was \$180,270. The declining recoveries were projected due to the timing of certain investigations and achieving greater regulatory compliance from the title industry.
- The Department of Housing and Community Development (DHCD) funded the overage of program expenses in the amount of \$74,790 in fiscal year 2016, and \$61,278 in fiscal year 2015. No monetary assistance was required in fiscal year 2014. MAHT regulations allow for 5% of fund balance to be used to cover program administrative expenditures.
- MAHT's Long-term Receivables consist of several contractual agreements to repay pre-development grants should conditions warrant. The Allowance for Doubtful Accounts was established to show the net amount projected to be collected in the near term.

MARYLAND AFFORDABLE HOUSING TRUST

Management Discussion and Analysis
June 30, 2016 and 2015

USING THIS ANNUAL REPORT

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Maryland Affordable Housing Trust's basic financial statements. MAHT's basic financial statements consist of government-wide and fund financial statements and notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

This annual report consists of two financial statements: (1) Government-wide Statement of Net Position and (2) Combined Government-wide Statement of Activities (on pages 9 through 11). These financial statements provide information about the activities of MAHT as a whole.

The government-wide financial statements provide a broad overview of MAHT's operations in a manner similar to a private-sector business. The statements provide information about MAHT's financial position which assists readers in assessing MAHT's economic condition at the end of the fiscal year. The statements include all fiscal year revenues and expenses, regardless of whether cash has been received or paid. The government-wide financial statements include the following two statements.

The *Statement of Net Position* presents all of MAHT's assets and liabilities, with the difference between the two reported as "net position." Over time, increases and decreases in MAHT's net position may serve as a useful indicator of whether the financial position of MAHT is improving or deteriorating.

The *Statement of Activities* presents information showing how MAHT's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MAHT, like other state and local governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the governmental-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating MAHT's near-term financing requirements. These financial statements are included on pages 12 and 13.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements. The notes to the financial statements can be found on pages 14-20 of this report.

Required Supplementary Information

The required supplementary information includes a budgetary comparison schedule for expenditures.

MARYLAND AFFORDABLE HOUSING TRUST

Management Discussion and Analysis June 30, 2016 and 2015

CONDENSED FINANCIAL INFORMATION

The following condensed financial information was derived from the government-wide *Statement of Net Position* for the years then ended.

	2016	2015	Increase (Decrease)	Percent Increase (Decrease)
Current and Other Assets				
Cash	\$ 1,505,477	\$ 1,791,535	\$ (286,058)	(15.97%)
Short-Term Receivables	117,570	109,019	8,551	7.84%
Long-Term Receivables, net	26,500	32,500	(6,000)	(18.46%)
Total Assets	<u>1,649,547</u>	<u>1,933,054</u>	<u>(283,507)</u>	<u>(14.67%)</u>
Other liabilities	<u>247,653</u>	<u>441,444</u>	<u>(193,791)</u>	<u>(43.90%)</u>
Net Position - Restricted	<u>\$ 1,401,894</u>	<u>\$ 1,491,610</u>	<u>\$ (89,716)</u>	<u>(6.01%)</u>

The fiscal year 2016 decrease of \$283,507 in total assets is due mainly to the decrease in cash on hand. The fiscal year 2016 decrease of \$193,791 in liabilities was due mainly to fewer requests presented for grant draws at June 30th.

	2015	2014	Increase (Decrease)	Percent Increase (Decrease)
Current and Other Assets				
Cash	\$ 1,791,535	\$ 1,721,942	\$ 69,593	4.04%
Short-Term Receivables	109,019	97,562	11,457	11.74%
Long-Term Receivables, net	32,500	38,500	(6,000)	(15.58%)
Total Assets	<u>1,933,054</u>	<u>1,858,004</u>	<u>75,050</u>	<u>4.04%</u>
Other liabilities	<u>441,444</u>	<u>91,250</u>	<u>350,194</u>	<u>383.77%</u>
Net Position - Restricted	<u>\$ 1,491,610</u>	<u>\$ 1,766,754</u>	<u>\$ (275,144)</u>	<u>(15.57%)</u>

The fiscal year 2015 increase of \$75,050 in total assets is due to an increase in cash and cash equivalents of \$69,593, and a net increase in Escrow Receivables of \$5,457.

The fiscal year 2015 increase of \$350,194 in liabilities was due mainly to a delay in payments to current year grant recipients. The Department of Housing and Community Development headquarters moved in April 2015, and the retirement of the MAHT Program Coordinator, contributed to catchup payments at the fiscal year end.

MARYLAND AFFORDABLE HOUSING TRUST

Management Discussion and Analysis June 30, 2016 and 2015

The following condensed financial information was derived from the government-wide *Statement of Activities* for the years then ended.

	2016	2015	Increase (Decrease)	Percent Increase (Decrease)
Program Revenues				
Escrow income	\$ 970,580	\$ 860,923	\$ 109,657	12.74%
Return of grant funds	224,580	- 0 -	224,580	100%
Other	- 0 -	125	(125)	(100%)
Total Program Revenues	1,195,160	861,048	334,112	38.80%
Program Expenses				
Grant expenditures	1,209,760	1,047,799	161,961	15.46%
Administration	149,906	149,671	235	0.16%
Total Program Expenses	1,359,666	1,197,470	162,196	13.54%
Income Before Contributions, Transfers and Extraordinary Items	(164,506)	(336,422)	171,916	51.10%
Funding from Department of Housing and Community Development	74,790	61,278	13,512	22.05%
Total Other Income	74,790	61,278	13,512	22.05%
Change in Net Position	(89,716)	(275,144)	185,428	67.39%
Net Position - Beginning	1,491,610	1,766,754	(275,144)	(15.57%)
Net Position - Ending	<u>\$ 1,401,894</u>	<u>\$ 1,491,610</u>	<u>\$ (89,716)</u>	<u>(6.01%)</u>

The total revenue increase of \$334,112, in fiscal year 2016, was a combination of increases in escrow remittances and returns on pre-development loans. Bank remittances increased by \$135,820, recoveries of prior period interest decreased by \$26,163, DHCD Program Support increased by \$13,512 to cover the 5% limitation, and returns on pre-development loans increased by \$224,580.

Total fund expenditures increased by \$162,196 in fiscal year 2016 as compared to fiscal year 2015. Expenditures for Grants were \$161,961 higher in fiscal year 2016. The grant payments consisted of 41.6% of current year commitments, 50.8% of fiscal year 2015 commitments, and 7.6% of fiscal years 2013 and 2014 commitments. There was a very small difference in Administrative expenses from fiscal year 2016 to 2015.

During the fiscal years ending 2016 and 2015, the continued partnership of the Maryland Insurance Administration (MIA) staff, the MAHT program staff, and the MAHT finance staff, in investigating and collecting delinquent remittances, and educating title companies on their legal requirements under the MAHT regulations achieved mixed results. One large organization has failed to comply with the MAHT regulations and pays MAHT prior period funds via MIA enforcement actions, for the past several years. The collected totals at FY2016 and FY2015 were \$1,736,946 and \$1,653,425 respectfully.

MARYLAND AFFORDABLE HOUSING TRUST

Management Discussion and Analysis June 30, 2016 and 2015

	2015	2014	Increase (Decrease)	Percent Increase (Decrease)
Program Revenues				
Escrow income	\$ 860,923	\$ 952,662	\$ (91,739)	(9.63%)
Return of grant funds	0	150,000	(150,000)	(100%)
Other	125	26,817	(26,692)	(99.53%)
Total Program Revenues	861,048	1,129,479	(268,431)	(23.77%)
Program Expenses				
Grant expenditures	1,047,799	1,562,826	(515,027)	(32.95%)
Administration	149,671	112,664	37,007	32.85%
Total Program Expenses	1,197,470	1,675,490	(478,020)	(28.53%)
Income Before Contributions, Transfers and Extraordinary Items	(336,422)	(546,011)	209,589	38.39%
Funding from Department of Housing and Community Development	61,278	- 0 -	61,278	100%
General Obligation Bonds Revenue	- 0 -	143,562	(143,562)	(100%)
Total Other Income	61,278	143,562	(82,284)	(57.32%)
Change in Net Position	(275,144)	(402,449)	127,305	31.63%
Net Position - Beginning	1,766,754	2,169,203	(402,449)	(18.55%)
Net Position - Ending	\$ 1,491,610	\$ 1,766,754	\$ (275,144)	(15.57%)

The total revenue decrease of \$268,431, in fiscal year 2015 to fiscal year 2014, was a combination of decreases in escrow remittances and returns on loans. Bank remittances decreased by \$21,153, and recoveries of prior period interest collected, with the assistance of the Maryland Insurance Administration, came in at less than a predicted decrease, a \$70,586 decrease. There was not a return of funds on pre-development loans or re-payments of grant monies in fiscal year 2015. This equated to a combined net decrease of \$176,692.

The General Obligation (GO) Bonds revenue for fiscal year 2014 was \$143,562, and is a match for the total disbursements made during fiscal year 2014, for the special fund. The total \$2 million award was completely drawn down by the end of fiscal year 2014.

Total fund expenditures decreased by \$478,020 in fiscal year 2015 as compared to fiscal year 2014. Expenditures for Grants were \$515,027 less in fiscal year 2015. The grant payments consisted of 50% of current year commitments, and 50% of prior fiscal years grant encumbrances. The increase in the administrative expenses of \$37,007 was a result of the addition of a new contractual staff position within the MAHT Program during fiscal year 2015.

MARYLAND AFFORDABLE HOUSING TRUST

Management Discussion and Analysis
June 30, 2016 and 2015

BUDGETARY HIGHLIGHTS

There was no change between the original budget and the final budget for MAHT resulting in a total general fund appropriation of \$1,392,920, for Fiscal Year 2016, and \$1,409,060 for Fiscal Year 2015. Of the Fiscal Year 2016 funds, \$578,752 was expended, \$371,330 was encumbered, and \$442,838 was held over for FY2017.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016 and 2015, MAHT had no funds invested in capital assets.

Debt

At June 30, 2016 and 2015, MAHT had no debt outstanding.

CONTACTING MAHT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the users of these financial statements with a general overview of MAHT's finances. If you have questions about this report or need additional financial information, contact the Director of Finance and Administration or the Director of Financial Analysis, Maryland Department of Housing and Community Development, 7800 Harkins Road, Lanham, Maryland 20706.

MARYLAND AFFORDABLE HOUSING TRUST

Statements of Net Position June 30, 2016 and 2015

	Governmental Activities	
	2016	2015
ASSETS		
Cash	\$ 1,505,477	\$ 1,791,535
Short-term receivables	117,570	109,019
Long-term receivables - net	26,500	32,500
TOTAL ASSETS	1,649,547	1,933,054
LIABILITIES		
Accounts payable & accrued expenses	247,653	441,444
TOTAL LIABILITIES	247,653	441,444
NET POSITION		
Restricted	1,401,894	1,491,610
TOTAL NET POSITION	\$ 1,401,894	\$ 1,491,610

See accompanying notes to financial statements

MARYLAND AFFORDABLE HOUSING TRUST

Statement of Activities
For the Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Operating	Grants & Contributions	
Governmental Activities:				
Program grant expense	\$ 1,209,760	\$ 1,120,579		\$ (89,181)
Program administration	149,906	149,371		(535)
TOTAL PRIMARY GOVERNMENT	\$ 1,359,666	\$ 1,269,950		(89,716)
 CHANGE IN NET POSITION				 (89,716)
NET POSITION - BEGINNING				<u>1,491,610</u>
NET POSITION - ENDING				<u>\$ 1,401,894</u>

See accompanying notes to financial statements

MARYLAND AFFORDABLE HOUSING TRUST

Statement of Activities
For the Year Ended June 30, 2015

FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Program Revenues Operating Grants & Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental Activities:			
Program grant expense	\$ 1,047,799	\$ 772,710	\$ (275,089)
Program administration	149,671	149,616	(55)
TOTAL PRIMARY GOVERNMENT	<u>\$ 1,197,470</u>	<u>\$ 922,326</u>	<u>(275,144)</u>
CHANGE IN NET POSITION			(275,144)
NET POSITION - BEGINNING			<u>1,766,754</u>
NET POSITION - ENDING			<u>\$ 1,491,610</u>

See accompanying notes to financial statements

MARYLAND AFFORDABLE HOUSING TRUST

Balance Sheets
Governmental Funds
June 30, 2016 and 2015

	General Fund	
	2016	2015
<u>ASSETS</u>		
Cash	\$ 1,505,477	\$ 1,791,535
Short-term receivables	117,570	109,019
Long-term receivables - net	26,500	32,500
Total Assets	<u>1,649,547</u>	<u>1,933,054</u>
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	<u>247,653</u>	<u>441,444</u>
Total Liabilities	<u>247,653</u>	<u>441,444</u>
<u>FUND BALANCES</u>		
Nonspendable	32,500	38,500
Restricted	<u>1,369,394</u>	<u>1,453,110</u>
Total Fund Balances	<u>1,401,894</u>	<u>1,491,610</u>
Total Liabilities and Fund Balances	<u>\$ 1,649,547</u>	<u>\$ 1,933,054</u>

See accompanying notes to financial statements

MARYLAND AFFORDABLE HOUSING TRUST

Statements of Revenues, Expenditures and Changes in Fund Balance Governmental Funds For the Years Ended June 30, 2016 and 2015

	General Fund	
	<u>2016</u>	<u>2015</u>
REVENUES		
Escrow income	\$ 970,580	\$ 860,923
Return of grant funds	224,580	- 0 -
Funding from Department of Housing and Community Development	74,790	61,278
Other contributions	<u>- 0 -</u>	<u>125</u>
Total Revenues	<u>1,269,950</u>	<u>922,326</u>
EXPENDITURES		
Current operating		
Grant expenditures	1,209,760	1,047,799
Administration	<u>149,906</u>	<u>149,671</u>
Total Expenditures	<u>1,359,666</u>	<u>1,197,470</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(89,716)	(275,144)
FUND BALANCES - BEGINNING	<u>1,491,610</u>	<u>1,766,754</u>
FUND BALANCES - ENDING	<u><u>\$ 1,401,894</u></u>	<u><u>\$ 1,491,610</u></u>

See accompanying notes to financial statements

MARYLAND AFFORDABLE HOUSING TRUST

Notes to Financial Statements June 30, 2016 and 2015

1. Summary of Significant Accounting Policies

The Maryland Affordable Housing Trust ("MAHT") was created in 1992 by an Act of the Maryland General Assembly. In 1996, regulations were adopted. In 1998, these regulations were amended. MAHT is a public instrumentality of the State of Maryland ("State") that provides funding to create affordable housing in Maryland. MAHT operates under the policy direction of an eleven-member Board of Trustees appointed by the Governor. The Maryland Department of Housing and Community Development (MD-DHCD) accounts for MAHT as a Special Fund in its financial operations.

MAHT acquires funds through interest earned on the title insurance companies' escrow accounts. Under the law, title companies shall pool and commingle trust monies received from clients or beneficial owners if a separate deposit of the trust money would generate \$50 or less in interest, or more than \$50 in interest, if in the latter case financial institution charges are anticipated to be more than the interest which would be earned on the trust money if separately deposited. The financial institution in which the commingled account is maintained shall pay the interest earned, less reasonable and customary service charges, to MAHT.

Measurement Focus, Basis of Accounting and Financial Statement Presentation - The financial statements of MAHT are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to local governments. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

The accounts of MAHT are organized on the basis of funds, each of which is considered a separate accounting entity. The operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. MAHT records revenue when the interest that is earned from title insurance companies' escrow accounts maintained at various financial institutions is remitted to MAHT through MD-DHCD or becomes susceptible to accrual.

Program revenues include interest income earned on title companies' escrow accounts, interest income earned on invested funds, repayments from pre-development awards and program support contributions. Other revenue sources not properly included with program revenues are reported as general revenues. Grant expenditures from previous years and returned in the current year and repayments of pre-development awards are recorded as "Return of Grant Funds."

While government-wide and fund financial statements are presented separately, they are interrelated. For MAHT the two approaches effectively present the same result, with only classification differences. The governmental activities column of the government-wide statements incorporates data from governmental funds. Separate financial statements are provided for each major governmental fund. There are no proprietary or fiduciary funds held by MAHT.

Governmental fund statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period, or soon enough thereafter to pay current liabilities. MAHT considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

MARYLAND AFFORDABLE HOUSING TRUST

Notes to Financial Statements June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Major revenue sources susceptible to year-end accrual include: bank remittances and compliance receipts. In general, all other revenues are considered to be measurable and available when cash is received.

When both restricted and unrestricted resources are available for use, it is MAHT's policy to use restricted resources first, then unrestricted resources as needed. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Types and Major Funds

The accounts of MAHT are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. There are no non-major funds.

MAHT reports the following major governmental funds:

The General Fund - This is the primary operating fund of MAHT. It accounts for all of the financial resources and the legally authorized activities of MAHT except for those required to be accounted for in other specialized funds. The general fund accounts for the normal operating activities of MAHT. These activities are financed primarily by bank remittances on escrow accounts.

Special Revenue Fund - This fund accounts for all monies received from the general fund of the State of Maryland. There was no opening balance at the beginning of the year or activity occurring within the special revenue fund during the years ended June 30, 2016 and 2015 and as such, the special revenue fund is not reflected in these financial statements.

Budgetary Data - The Maryland Constitution requires the Governor to submit to the General Assembly an annual balanced budget for the following fiscal year. All State budgetary expenditures for the general, special, Federal, current unrestricted and current restricted funds are made pursuant to appropriations in the annual budget, as amended from time to time by budget amendments. MAHT's budget consists of special funds and general funds. State governmental departments and independent agencies may, with the Governor's approval, amend the appropriations for special funds, either increasing or decreasing the original budgeted amount, dependent upon the availability of such funds.

Cash - MAHT's cash is pooled with the State's funds and is under the custody of the State Treasurer.

Receivables - Net - Short-term receivables consists primarily of bank remittances and compliance receipts. Long-term receivables consist of pre-development grants. MAHT has determined that the collectability of certain pre-development grants is uncertain and accordingly has recorded an allowance for doubtful accounts. Due to the nature of pre-development grant projects, it is MAHT's policy to maintain the allowance until repayment is received or a repayment agreement is signed unless a pre-development grant project falls through at which time the receivable is written off.

MARYLAND AFFORDABLE HOUSING TRUST

Notes to Financial Statements June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Net Position –

In the government-wide financial statements, net position is classified in the following categories:

Invested in Capital Assets, Net of Related Debt

This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balance of the debt that is attributable to the acquisition, construction or improvement of these assets reduce this category. MAHT currently has no net position invested in capital assets.

Restricted Net Position

This category represents the net position of MAHT which has been restricted for a specific project or purpose by law through constitutional provisions or enabling legislation. As of June 30, 2016 and 2015, MAHT reported \$1,401,894 and \$1,491,610 of restricted net position.

Unrestricted Net Position

This category represents the net position of MAHT, which is not restricted for any project or other purpose by third parties. MAHT currently has no unrestricted net position.

Fund Balances-

In the fund financial statements, fund balances are classified in the following categories:

Nonspendable

This category includes amounts that cannot be spent due to form, such as inventory, prepaid amounts, long term receivables or amounts that must be maintained intact legally or contractually. As of June 30, 2016 and 2015, MAHT had nonspendable funds of \$32,500 and \$38,500 for long-term receivables that are not in spendable form, as they are not collected within 60 days of year end.

Restricted

This category includes amounts constrained by an external party, constitutional provision or enabling legislation. As of June 30, 2016 and 2015, MAHT had \$1,369,394 and \$1,453,110 of fund balance restricted by law through constitutional provisions or enabling legislation for prior or future grant funding rounds.

Committed

This category includes amounts constrained for a specific purpose by the Board of Trustees using its highest level of decision making authority, prior to year end. As of June 30, 2016 and 2015, MAHT did not have any assets to be reported in this category.

Assigned

This category includes amounts constrained by the intent to be used for a specific purpose by a governing board which has the authority to assign funds. As of June 30, 2016 and 2015, MAHT did not have any assets to be reported in this category.

Unassigned

This category includes all funds which are not specifically classified as Nonspendable, Restricted, Committed or Assigned. As of June 30, 2016 and 2015, MAHT did not have any assets to be reported in this category.

MARYLAND AFFORDABLE HOUSING TRUST

Notes to Financial Statements
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Costs Not Reflected in These Financial Statements - General services such as accounting, data processing and administration are provided by the Department of Housing and Community Development. Most of these general service expenditures are not reasonably estimable, and as such are not reflected in these basic financial statements. Those personnel costs that are charged to MAHT include salaries and related costs and are reflected in these basic financial statements. In addition, there are no liabilities pertaining to annual leave, retirement, post-employment benefits and deferred compensation plans in these basic financial statements.

2. Cash and Investments

Deposit Policies

MAHT's deposits and investments are pooled with the State's funds and are under the custody of the State Treasurer. The State Treasurer's Office invests short-term cash balances on a daily basis. The investments consist of securities or repurchase agreements, U.S. Government obligations and money market mutual funds. Under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2, the State Treasurer may only invest in the following: (1) any obligation for which the United States Government has pledged its faith and credit for the payment of principal and interest, (2) any obligation that a United States agency issues in accordance with an act of Congress, (3) repurchase agreements that any of the above obligations secure, (4) certificates of deposit of Maryland financial institutions, (5) banker's acceptances, (6) mutual funds, (7) commercial paper and (8) Maryland Local Government Investment Pool. All deposits are maintained with financial institutions within the State and all balances are covered by FDIC insurance or collateral that exceeds the amount by which deposits exceed FDIC insurance limits.

A significant portion of the investments maintained by the State Treasurer consists of repurchase agreements. Collateral must be at least 102% of the book value of the repurchase agreements and must be delivered to the State Treasurer's custodian for safekeeping.

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, MAHT's deposits may not be returned or MAHT will not be able to recover collateral securities in the possession of an outside party. MAHT's policy requires deposits to be insured by FDIC, and balances exceeding FDIC limits be secured by a surety bond or collateral valued at 102% of principal and accrued interest. Collateral is to be held by MAHT, its agent, or by the pledging institution's trust department or agent in the name of MAHT.

As of June 30, 2016 and 2015, the carrying amounts of MAHT's deposits were \$1,505,477 and \$1,791,535.

Investment Policies

Credit Risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. MAHT's policy for reducing its exposure to credit risk is to comply with the Maryland State Treasurer's policy, which requires that the Treasurer's investments in repurchase agreements be collateralized by U.S. Treasury and agency obligations. In addition, investments may be made directly in U.S. Treasuries or agency obligations.

MARYLAND AFFORDABLE HOUSING TRUST

Notes to Financial Statements
June 30, 2016 and 2015

2. Cash and Investments (continued)

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. MAHT's policy provides that to the extent practicable, investments are matched with anticipated cash flows.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of MAHT's investment in a single issuer. MAHT's policy for reducing this risk of loss is to comply with the Maryland State Treasurer's policy, which limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. Otherwise, there is no limit on the amount that may be invested in any one issuer.

For investments, *Custodial Credit Risk* is the risk that, in the event of the failure of the counterparty, MAHT will not be able to recover the value of its investments or collateral securities in the possession of an outside party. MAHT's policy is for collateral to be held by MAHT, its agent, or by the pledging institution's trust department or agent in the name of MAHT.

Substantially all cash and cash equivalents of the governmental fund types and certain enterprise, fiduciary funds and component units are maintained by the State Treasurer on a pooled basis. The State Treasurer's Office invests short-term cash balances on a daily basis primarily in the repurchase agreements, U.S. Government obligations and money market mutual funds. Under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2, the State Treasurer may only invest in the following:

- Any obligation for which the United States Government has pledged its faith and credit for the payment of principal and interest
- Any obligation that a United States agency issues in accordance with an act of Congress
- Repurchase agreements that any of the above obligations secure
- Certificates of deposits of Maryland financial institutions
- Banker's acceptances
- Money market mutual funds
- Commercial paper
- Maryland Local Government Investment Pool

In addition, bond sale proceeds may be invested in Municipal securities. A significant portion of the investments maintained by the State Treasurer consists of repurchase agreements. Collateral must be at least 102% of the book value of the repurchase agreements and must be delivered to the State Treasurers' custodian for safekeeping.

Financial assets valued using Level 1 inputs are based on quoted market prices within active markets. Financial assets valued using Level 2 inputs are based on unadjusted quoted prices by fund managers for securities which are not actively traded. Valuation techniques utilized to determine fair value are consistently applied. There are no assets valued based on Level 3 inputs, and consequently there were no transfers into or out of Level 3. Investments maturing within 90 days of purchase are reported in the financial statements as cash and cash equivalents.

MARYLAND AFFORDABLE HOUSING TRUST

Notes to Financial Statements June 30, 2016 and 2015

3. Accounts Receivable

The accounts receivable balance consists of escrow revenue of \$111,570 and \$103,019 earned as of June 30, 2016 and 2015, but received by MAHT subsequent to those date, and short-term predevelopment grants of \$6,000 for both years.

Long-term receivables consist of pre-development grants of \$307,500 and \$455,080 as of June 30, 2016 and 2015. MAHT has determined that the collectability of certain pre-development grants is uncertain and accordingly has recorded an allowance of \$275,000 and \$416,580, to reduce pre-development grants receivable to the net realizable value of \$32,500 and \$38,500 as of June 30, 2016 and 2015, and reduced by the short-term portion of \$6,000 for both years. MAHT has a monthly repayment agreement of \$500 through November 2021 for one of the pre-development grants receivable.

4. Grant Expenditures

MAHT has entered into grant agreements with several organizations. Payment to the grantee is dependent upon the satisfaction of the conditions of the agreements.

5. Risk Management

MAHT is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to workers; and natural disasters. All funds, agencies, and authorities of the State participate in the self-insurance program (the Program). The Program is self-insured for general liability, property and casualty, workers compensation, environmental and anti-trust liabilities and certain employee health benefits. The Program allocates the cost of providing claims servicing and claims payment by charging a "premium" to each fund, agency or public authority, based on a percentage of each organization's estimated current-year payroll or based on an average loss experienced by each organization. This charge considers recent trends in actual claims experience of the State as a whole and makes provision for catastrophic losses. No costs were charged to MAHT for the Program for the years ended June 30, 2016 or 2015.

This is a total risk and cost sharing pool for all participants. In the event that the risk pool falls into a deficit that cannot be satisfied by transfers from the risk pool's capital and surplus accounts, the risk pool shall determine a method to fund the deficit. The Program could assess an additional premium to each participant, including MAHT. MAHT's management believes that an additional premium to fund a deficit would not be material.

A more complete description of the State's risk management program may be found in the State's Comprehensive Annual Financial Report (CAFR). The CAFR may be obtained by writing to the State Comptroller, P.O. Box 466, Annapolis, Maryland 21404-0466.

6. Pension and Other Postretirement Benefits

Eligible employees of the State who are assigned to perform services for MAHT are covered under the retirement plans of the State Retirement and Pension System of Maryland (the "System"), a defined benefit plan, and are also entitled to certain healthcare benefits upon retirement. Membership is governed by the Annotated Code of Maryland and Code of Maryland Regulations. Members of the System are vested after ten years of service. The System is governed by a 14 member board of trustees and is considered part of the State's financial reporting entity, and is not considered a part of MAHT's reporting entity. The System prepares a separate Comprehensive Annual Financial Report, which can be obtained from the State Retirement and Pension System of Maryland at 120 East Baltimore Street, Baltimore, Maryland 21202.

MARYLAND AFFORDABLE HOUSING TRUST

Notes to Financial Statements June 30, 2016 and 2015

6. Pension and Other Postretirement Benefits (continued)

State employees contribute a mandatory 7% of gross salary to the System. MAHT's only liability for retirement and post-employment benefits is its required annual contribution to the Department of Housing and Community Development. During the years ended June 30, 2016 and 2015, MAHT was assigned one eligible full-time participant in the System. The contribution rate for MAHT's participant was 16.88% of gross salary, during the years ended June 30, 2016 and 2015. During the years ended June 30, 2016 and 2015, MAHT paid 100% of its required contribution of \$13,607 and \$10,955, respectively which in turn was paid in full to the State of Maryland prior to year end.

7. Funding from Department of Housing and Community Development

MAHT regulations allow for 5% of fund balance to be used to cover program administrative expenditures. During the years ended June 30, 2016 and 2015, program expenditures exceeded the allowable amount. To fund the overage, the Department of Housing and Community Development transferred \$74,790 and \$61,278 respectively, to MAHT.

8. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition through September 13, 2016 the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

MARYLAND AFFORDABLE HOUSING TRUST
Schedule of Revenues and Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Escrow income	\$ 1,392,920	\$ 1,392,920	\$ 1,269,950	\$ (122,970)
Total Revenues	<u>1,392,920</u>	<u>1,392,920</u>	<u>1,269,950</u>	<u>(122,970)</u>
Expenditures				
General fund	<u>1,392,920</u>	<u>1,392,920</u>	<u>1,024,872</u>	<u>368,048</u>
Total expenditures	<u>1,392,920</u>	<u>1,392,920</u>	<u>1,024,872</u>	<u>368,048</u>
Deficiency of revenue over expenditures	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 245,078</u>	<u>\$ 245,078</u>

See accompanying notes to required supplementary information

MARYLAND AFFORDABLE HOUSING TRUST
Schedule of Revenues and Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Escrow income	<u>\$ 1,409,060</u>	<u>\$ 1,409,060</u>	<u>\$ 922,326</u>	<u>\$ (486,734)</u>
Total Revenues	<u>1,409,060</u>	<u>1,409,060</u>	<u>922,326</u>	<u>(486,734)</u>
Expenditures				
General fund	<u>1,409,060</u>	<u>1,409,060</u>	<u>1,389,647</u>	<u>19,413</u>
Total expenditures	<u>1,409,060</u>	<u>1,409,060</u>	<u>1,389,647</u>	<u>19,413</u>
Deficiency of revenue over expenditures	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ (467,321)</u>	<u>\$ (467,321)</u>

See accompanying notes to required supplementary information

MARYLAND AFFORDABLE HOUSING TRUST

Notes to Required Supplementary Information June 30, 2016 and 2015

Budgetary Information

The Maryland Constitution requires the Governor to submit to the General Assembly an annual balanced budget for the following fiscal year. All State budgetary expenditures for the general, special, Federal, current unrestricted and current restricted funds are made pursuant to appropriations in the annual budget, as amended from time to time by budget amendments. MAHT's budget consists of special funds and general funds. State governmental departments and independent agencies may, with the Governor's approval, amend the appropriations for special funds, either increasing or decreasing the original budgeted amount, dependent upon the availability of such funds. There was no change between the original budget and the final budget for MAHT for the year ended June 30, 2016 and 2015.

Reconciliation to GAAP for the year ended June 30:	<u>2016</u>	<u>2015</u>
Excess of revenue over expenditures		
(deficiency of revenue over expenditures) - budgetary basis \$	245,078	\$ (467,321)
Encumbrances - current year grants	371,330	715,699
Encumbrances - draws on prior years grants	<u>(706,124)</u>	<u>(523,522)</u>
Deficiency of revenue over expenditure - Statements of Revenues, Expenditures and Changes in Fund Balance	<u>\$ (89,716)</u>	<u>\$ (275,144)</u>

The legal level of budgetary control is at the level of general classification of expenditure. MAHT did not exceed its budget at June 30, 2016 or 2015.